

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

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R 051740Z AUG 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4288

C O N F I D E N T I A L LONDON 12224

E.O. 11652: GDS

TAGS: ECON, UK, EFIN

SUBJECT: FURTHER COMMENTS ON CHANCELLOR'S PACKAGE

REF: LONDON 11463 AND 11607

1. ASKED DURING A LUNCHEON CONVERSATION WHETHER CBI'S UNHAPPINESS WITH THE ADDITION OF THE PAYROLL TAX INCREASE RELATES MORE TO THE SUBSTANCE OF THE ACTION OR THE LACK OF PRIOR CONSULTATION, CBI DIRECTOR GENERAL JOHN METHVEN TOLD US IT RELATES TO BOTH. THE INCREASE CANNOT BE PASSED ON IN PRICE INCREASES, CERTAINLY NOT ENTIRELY, HE SAID, AND IS INCONSISTENT WITH THE GOVERNMENT'S AVOWED AIM OF HELPING INDUSTRY. THE LACK OF PRIOR CONSULTATION WAS BAD, BUT WAS MADE WORSE BY THE BELIEF, WHICH METHVEN SAID IS WIDESPREAD IN LONDON, THAT THE PAYROLL TAX INCREASE WAS ADDED TO THE PACKAGE AT THE LAST MINUTE AS A RESULT OF PRESSURE FROM AN OUTSIDE SOURCE OR SOURCES.

2. ELABORATING THIS LAST POINT, METHVEN SAID THE CHANCELLOR EVIDENTLY HAD DISCUSSED A ONE BILLION POUND CUT IN EXPENDITURES AND REDUCTION OF THE DEFICIT OVER A PERIOD OF WEEKS; SUDDENLY, JUST BEFORE THE PACKAGE WAS ANNOUNCED, THE PAYROLL TAX INCREASE WAS ADDED AND THE  
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NECESSARY SCOPE OF THE PACKAGE BECAME 2 BILLION POUNDS.

HE DID NOT SUPPOSE THAT ANY OUTSIDE SOURCE HAD ADVOCATED A PAYROLL TAX INCREASE IN SPECIFIC OR ANY SPECIFIC MEASURE, BUT IT WAS DIFFICULT NOT TO SUSPECT THAT THERE HAD BEEN A TELEPHONE CALL AND SOMEONE HAD SAID THERE MUST BE A LARGER REDUCTION OF THE DEFICIT.

3. COMMENT. ALTHOUGH IT IS GENERALLY ASSUMED THAT PRESSURE FROM THE INTERNATIONAL FINANCIAL COMMUNITY WAS A MAJOR FACTOR BEHIND THE CHANCELLOR'S PACKAGE, WE DOUBT THAT IT IS A WIDESPREAD BELIEF, AS METHVEN ASSERTS, THAT THE SECOND PART OF PACKAGE WAS ADDED IN RESPONSE TO SPECIFIC OUTSIDE PRESSURE, I.E. A TELEPHONE CALL. CABINET POLICY REVIEW HEAD SIR KENNETH BERRILL, WHO WE ASKED ABOUT THIS, SAID HE DOES NOT THINK THIS IS THE BELIEF AROUND THE GOVERNMENT; HE HAD NOT HEARD IT. HE THINKS MOST OF LONDON ATTRIBUTES THE PACKAGE TO THE OVERALL NEEDS OF THE SITUATION RATHER THAN TO SPECIFIC FOREIGN INTERVENTION. SOME OTHER COMMENTATORS HAVE RELATED THE ADDITION OF THE SECOND HALF OF THE PACKAGE TO THE MORE OPTIMISTIC ECONOMIC SITUATION (I.E. GREATER GDP GROWTH THAN EARLIER FORECAST) WHICH APPEARED WHILE THE PACKAGE WAS UNDER CONSIDERATION.

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